

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of McBrides	County Montcalm
Fiscal Year End 03/31/2007	Opinion Date 09/04/2007	Date Audit Report Submitted to State September 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Communication of Significant Deficiencies	
Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Steven C. Arends	License Number 1101013211

VILLAGE OF MCBRIDES, MICHIGAN

MARCH 31, 2007

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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VILLAGE OF MCBRIDES, MICHIGAN

MARCH 31, 2007

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September 4, 2007

INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of McBrides, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of McBrides, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Village of McBrides, Michigan's, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Management has not adopted budgets for any of the Village's funds. Accounting principles generally accepted in the United States of America require budget to actual comparisons in connection with the basic financial statements for the General Fund and any major individual special revenue funds.

In our opinion, except for the effects, if any, of not providing budgetary comparisons as described in the preceding paragraph, the basic financial statements referred to above present fairly, in all material respects, the respective financial position, of the governmental activities, and each major fund of the Village of McBrides, Michigan, as of March 31, 2007 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of McBrides, Michigan, basic financial statements. The individual fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Management's Discussion and Analysis

The management of the Village of McBrides, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2007 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$110,470 (shown as *Net Assets*), representing an increase of \$7,646 over the previous fiscal year.

Fund Level Financial Highlights

- ❖ As of March 31, 2007, the governmental funds of the Village of McBrides reported combined ending fund balances of \$88,535, of which \$43,535 is unreserved.
- ❖ The unreserved fund balance of the Village's General Fund increased this year by \$3,062 to \$43,535.

Overview of the Financial Statements

The Village of McBrides's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

The *Statement of Activities* gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public safety, major and local streets, public works, culture and recreation. The Village has no business type activities.

Focus on Funds

The Village's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund and Garbage and Rubbish Collection Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of McBrides uses fund accounting to ensure compliance with finance-related legal requirements.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the Special Revenue funds.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$110,470 at March 31, 2007, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Village of McBride
Net Assets
As of March 31, 2007

	<u>Governmental Activities</u>
Current Assets	\$ 89,001
Capital Assets, Net of Accumulated Depreciation	<u>21,935</u>
Total Assets	<u><u>110,936</u></u>
 Current Liabilities	 <u>466</u>
 Net Assets	
Invested in capital assets	21,935
Restricted	45,000
Unrestricted	<u>43,535</u>
Total Net Assets	<u><u>\$ 110,470</u></u>

The most significant portion of the Village's Net Assets is the cash. The Village has \$43,535 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village increased \$7,646 in this fiscal year, which is a good indicator that the Village experienced positive financial growth during the year. As a result, the Village ended the fiscal year in better condition than when the year started.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

**Village of McBrides
Change in Net Assets
for the Fiscal Year Ended March 31, 2007**

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 20,930
General Revenues	
Property Taxes	7,013
State Shared Revenue	38,756
Investment Earnings	1,620
Other Revenues	336
Total Revenues	<u>68,655</u>
<u>Expenses</u>	
Legislative	3,330
General Government	6,967
Public Safety	4,028
Public Works	35,104
Recreation and Culture	4,764
Other Functions	5,158
Unallocated Depreciation	1,658
Total Expenses	<u>61,009</u>
Increase (Decrease) in Net Assets	7,646
Beginning Net Assets	102,824
Ending Net Assets	<u><u>\$ 110,470</u></u>

Governmental Activities

The most significant portion of the revenue for all governmental activities of the Village of McBrides comes from State Shared Revenue (56.5%).

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes.

The Village's governmental activities expenses are dominated by the Public Works expenses that represent 57.5% of total expenses. The Village spent \$35,104 in FY2007 on Public Works. Expenses in the Major Street Fund (\$8,833) and Local Street Fund (\$4,347) represent a large portion of the Public Works expenditures. General Government Administrative represented the next largest expense at \$6,967 or 11.1% of total expenses within the governmental activities.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the Village's fiscal year ended March 31, 2007, its governmental funds reported fund balances of \$88,535. Of this amount, \$43,535, or 49.2% is unreserved. The remaining \$45,000 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$3,062, bringing the balance to \$43,535.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$20,298. This was an increase of \$4,624 from the previous year.

Local Street Fund – The fund balance of this fund is at \$24,292, an increase of \$1,437, during this fiscal year.

Garbage and Rubbish Collection Fund – The fund balance of this fund is at \$410, an increase of \$181, during the fiscal year.

Capital Asset and Debt Administration

Capital Assets. The Village's investment in capital assets for the governmental activities as of March 31, 2007 amounted to \$21,935 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$100 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

Village of McBrides
Capital Assets as of March 31, 2007

	Governmental Activities
Buildings	\$ 11,222
Land Improvements	16,385
Machinery and Equipment	18,800
Furniture and Fixtures	13,837
Vehicles	17,881
Subtotal	78,125
Accumulated Depreciation	(56,190)
Net Capital Assets	\$ 21,935

There were no major capital asset events during FY2007.

Long-Term Debt. As of March 31, 2007, the Village had no debt outstanding.

VILLAGE OF MCBRIDES

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2007

Contacting the Village's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of McBrides, PO Box 97, McBride, Michigan 48852, or call us at (989) 762-9008.

VILLAGE OF MCBRIDES, MICHIGAN

STATEMENT OF NET ASSETS

MARCH 31, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 82,668
Receivables	
Taxes	28
Accounts	112
Due from Other Governments	6,193
	<hr/>
Total Current Assets	89,001
	<hr/>
<u>CAPITAL ASSETS</u>	
Buildings	11,222
Land Improvements	16,385
Machinery and Equipment	18,800
Furniture and Fixtures	13,837
Vehicles	17,881
	<hr/>
	78,125
Less Accumulated Depreciation	56,190
Net Capital Assets	21,935
	<hr/>
TOTAL ASSETS	\$ 110,936
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 242
Deferred Revenue	224
	<hr/>
TOTAL LIABILITIES	466
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	21,935
Restricted for Major Streets	20,298
Restricted for Local Streets	24,292
Restricted for Garbage and Rubbish Removal	410
Unrestricted	43,535
	<hr/>
TOTAL NET ASSETS	110,470
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 110,936
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>				
Legislative	\$ 3,330	\$ 0	\$ 0	\$ (3,330)
General Government	6,967	13,180	0	6,213
Public Safety	4,028	0	0	(4,028)
Public Works	35,104	7,750	0	(27,354)
Recreation and Culture	4,764	0	0	(4,764)
Other Functions	5,158	0	0	(5,158)
Unallocated Depreciation	1,658	0	0	(1,658)
Total Governmental Activities	<u>\$ 61,009</u>	<u>\$ 20,930</u>	<u>\$ 0</u>	<u>\$ (40,079)</u>
<u>GENERAL REVENUES</u>				
Property Taxes				\$ 7,013
State Shared Revenue				38,756
Investment Earnings				1,620
Other Revenues				336
Total General Revenues				<u>47,725</u>
Change in Net Assets				7,646
<u>NET ASSETS</u> - Beginning of Year				<u>102,824</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 110,470</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

MARCH 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	GARBAGE AND RUBBISH COLLECTION FUND	TOTALS
<u>ASSETS</u>					
Cash					
Checking	\$ 15,079	\$ 0	\$ 0	\$ 522	\$ 15,601
Money Market Account	14,742	17,905	23,274	0	55,921
Certificates of Deposit	11,146	0	0	0	11,146
Receivables					
Taxes	28	0	0	0	28
Accounts	0	0	0	112	112
Due from Other Governments	2,782	2,393	1,018	0	6,193
TOTAL ASSETS	<u>\$ 43,777</u>	<u>\$ 20,298</u>	<u>\$ 24,292</u>	<u>\$ 634</u>	<u>\$ 89,001</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 242	\$ 0	\$ 0	\$ 0	\$ 242
Deferred Revenue	0	0	0	224	224
Total Liabilities	<u>242</u>	<u>0</u>	<u>0</u>	<u>224</u>	<u>466</u>

FUND BALANCE

Reserved for:					
Major Streets	0	20,298	0	0	20,298
Local Streets	0	0	24,292	0	24,292
Garbage and Rubbish Collection	0	0	0	410	410
Unreserved:					
Undesignated	43,535	0	0	0	43,535
Total Fund Balance	<u>43,535</u>	<u>20,298</u>	<u>24,292</u>	<u>410</u>	<u>88,535</u>

TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 43,777</u>	<u>\$ 20,298</u>	<u>\$ 24,292</u>	<u>\$ 634</u>	<u>\$ 89,001</u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2007

Total Fund Balances for Governmental Funds	\$	88,535
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Buildings	\$	11,222	
Land Improvements		16,385	
Machinery and Equipment		18,800	
Furniture and Fixtures		13,837	
Vehicles		17,881	
Accumulated Depreciation		(56,190)	21,935

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>110,470</u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED MARCH 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	GARBAGE AND RUBBISH COLLECTION FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 7,013	\$ 0	\$ 0	\$ 0	\$ 7,013
State Grants	19,688	13,376	5,692	0	38,756
Charges for Services	13,180	0	0	7,750	20,930
Interest and Rents	1,620	0	0	0	1,620
Other Revenues	163	81	92	0	336
Total Revenues	41,664	13,457	5,784	7,750	68,655
<u>EXPENDITURES</u>					
Legislative	3,330	0	0	0	3,330
General Government	6,967	0	0	0	6,967
Public Safety	4,028	0	0	0	4,028
Public Works	14,355	8,833	4,347	7,569	35,104
Recreation and Cultural	4,764	0	0	0	4,764
Other Functions	5,158	0	0	0	5,158
Total Expenditures	38,602	8,833	4,347	7,569	59,351
Net Change in Fund Balances	3,062	4,624	1,437	181	9,304
<u>FUND BALANCES</u> - Beginning of Year	40,473	15,674	22,855	229	79,231
<u>FUND BALANCES</u> - End of Year	\$ 43,535	\$20,298	\$24,292	\$ 410	\$ 88,535

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2007

Net change in Fund Balance - Total Governmental Funds	\$ 9,304
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	<u>(1,658)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 7,646</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of McBrides, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of McBrides reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The *Garbage and Rubbish Collection Fund* is used to account for the financial activity of the garbage and rubbish collection.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village has not adopted a formal investment policy, however, State statutes authorize the Village to invest funds as follows:

- a. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (II).
- c. In commercial paper rated prime at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. In repurchase agreements consisting of instruments listed in subdivision (a).
- e. In bankers' acceptances of United States banks.
- f. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.54 Stat 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

- (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
- (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. In obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. In investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.11 to 129.118.
- j. In the investment pools organized under the Local Government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (II) A public corporation that invests its funds under subsection (I) shall not deposit or invest the funds in a financial institution that is not eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States.
- (III) Assets acceptable for pledging to secure deposits of public funds are limited to assets authorized for direct investment under subsection (I).
- (IV) As used in this section, "financial institution" means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.

2. *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of July 1. Village taxes are levied January 1, become a lien on July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

The 2006 taxable valuation of the Village of McBrides totaled \$2,892,431, on which ad valorem taxes levied consisted of 2.4013 mills for the Village of McBrides operating purposes.

3. *Inventories and Prepaid Items*

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$100 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land Improvements	20
Vehicles	5-10
Machinery and Equipment	10
Furniture and Fixtures	5

5. *Long-term Obligations*

At March 31, 2007, the Village had no long-term debt.

6. *Fund Balance*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

No budgets were adopted for any of the Village's funds for the 2006-2007 fiscal year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Village's deposits are owned by several of the Village's funds. Bank deposits are in Chemical Bank West, Stanton, MI.

Investment rate risk. The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

Foreign currency risk. The Village is not authorized to invest in investments, which have this type of risk.

Credit risk. The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

Concentration of credit risk. The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2007, all of the government's bank balance of \$82,668 was covered by federal depository insurance.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Garbage and Rubbish Collection	Total
Receivables					
Taxes	\$ 28	\$ 0	\$ 0	\$ 0	\$ 28
Accounts	0	0	0	112	112
Intergovernmental	2,782	2,393	1,018	0	6,193
Total	\$ 2,810	\$ 2,393	\$ 1,018	\$ 112	\$ 6,333

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

	Deferred Revenue	
	Unavailable	Unearned
Prepaid Garbage and Rubbish Collection Fees (Garbage and Rubbish Collection Fund)	\$ 0	\$ 224

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Buildings	\$ 11,222	\$ 0	\$ 0	\$ 11,222
Land Improvements	16,385	0	0	16,385
Machinery and Equipment	18,800	0	0	18,800
Furniture and Fixtures	13,837	0	0	13,837
Vehicles	17,881	0	0	17,881
Total capital assets, being depreciated	78,125	0	0	78,125
Less accumulated depreciation for:				
Buildings	1,458	225	0	1,683
Land Improvements	3,211	799	0	4,010
Machinery and Equipment	18,800	0	0	18,800
Furniture and Fixtures	13,731	85	0	13,816
Vehicles	17,332	549	0	17,881
Total accumulated depreciation	54,532	1,658	0	56,190
Total capital assets, being depreciated, net	23,593	(1,658)	0	21,935
Governmental activities capital assets, net	\$ 23,593	\$ (1,658)	\$ 0	\$ 21,935

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Unallocated Depreciation	\$ <u>1,658</u>
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Construction Commitments:

The Village had no outstanding construction commitments as of March 31, 2007.

D. Interfund Receivables, Payables and Transfers

There were no interfund receivables for the fiscal year ended March 31, 2007.

No interfund transfers occurred during the fiscal year ended March 31, 2007.

VILLAGE OF MCBRIDES, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2007

F. Long-Term Debt

At March 31, 2007, the Village was not obligated for any long-term debt.

IV. OTHER INFORMATION

A. Property Tax

The Village levied 2.4013 mills in tax on a state taxable value of \$2,892,431 on the 2006 tax roll.

The Village bills and collects its own property taxes. Properties are assessed January 1, and the related property taxes become a lien on July 1 of the same year. These taxes are due on or before September 15 before they are added to the county tax rolls. Village property tax revenues are recognized when levied to the extent that they result in current revenues. Any delinquent personal property taxes on the current year tax roll are recorded as taxes receivable.

B. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village carries commercial insurance to cover these risks of loss.

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

VILLAGE OF MCBRIDES, MICHIGAN

GENERAL FUND
BALANCE SHEET

MARCH 31, 2007

ASSETS

Cash	
Commercial Account	\$ 15,079
Money Market Account	14,742
Certificates of Deposit	11,146
Taxes Receivable	28
Due from Other Government	2,782
	<hr/>
TOTAL ASSETS	<u>\$ 43,777</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 242
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FUND BALANCE

Unreserved	<hr/> 43,535
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TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 43,777</u></u>
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VILLAGE OF MCBRIDES, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2007

REVENUES

Taxes	\$ 7,013
State Grants	19,688
Charges for Services	13,180
Interest and Rents	1,620
Other Revenues	163
	<hr/>
Total Revenues	41,664
	<hr/>

EXPENDITURES

Legislative	
Village Council	3,330
General Government	
Village President	660
Clerk	605
Treasurer	1,198
Elections	226
Building and Grounds	4,228
Cemetery	50
Public Safety	
Village Marshall	4,028
Public Works	
Central Stores and Equipment	9,262
Street Lighting	5,093
Recreation and Cultural	
Parks and Recreation	4,764
Other Functions	5,158
	<hr/>
Total Expenditures	38,602
	<hr/>

Excess (Deficiency) of Revenues	
Over Expenditures	3,062

<u>FUND BALANCE</u> - Beginning of Year	<hr/> 40,473
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<u>FUND BALANCE</u> - End of Year	<hr/> <hr/> \$ 43,535
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VILLAGE OF MCBRIDES, MICHIGAN

MAJOR STREET FUND
BALANCE SHEET

MARCH 31, 2007

ASSETS

Cash on Deposit	
Money Market Account	\$ 17,905
Due from Other Governments	<u>2,393</u>
 TOTAL ASSETS	 \$ <u>20,298</u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Reserved for Major Streets	<u>20,298</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>20,298</u>

VILLAGE OF MCBRIDES, MICHIGAN

MAJOR STREET FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2007

REVENUES

State Grants	
Motor Vehicle Highway Fund - Act 51	\$ 13,376
Interest and Rents	
Interest Earnings	<u>81</u>
 Total Revenues	 <u>13,457</u>

EXPENDITURES

Public Works	
Highways, Streets and Bridges	
Maintenance	
Other Services and Charges	
Labor, Supplies and Equipment Rental	
Routine Maintenance	7,081
Winter Maintenance	1,352
Administration	<u>400</u>

Total Expenditures	<u>8,833</u>
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Excess (Deficiency) of Revenues Over Expenditures	4,624
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<u>FUND BALANCE</u> - Beginning of Year	<u>15,674</u>
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<u>FUND BALANCE</u> - End of Year	<u><u>\$ 20,298</u></u>
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VILLAGE OF MCBRIDES, MICHIGAN

LOCAL STREET FUND

BALANCE SHEET

MARCH 31, 2007

ASSETS

Cash on Deposit	
Money Market Account	\$ 23,274
Due from Other Governments	1,018
	<hr/>
TOTAL ASSETS	\$ 24,292
	<hr/> <hr/>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
<u>FUND BALANCE</u>	
Reserved for Local Streets	24,292
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 24,292
	<hr/> <hr/>

VILLAGE OF MCBRIDES, MICHIGAN

LOCAL STREET FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2007

REVENUES

State Grants

Motor Vehicle Highway Fund - Act 51 \$ 5,692

Interest and Rents

Interest Earnings 92

Total Revenues 5,784

EXPENDITURES

Public Works

Highways, Streets and Bridges

Maintenance

Other Services and Charges

Labor, Supplies and Equipment Rental

Routine Maintenance 676

Winter Maintenance 3,541

Administration 130

Total Expenditures 4,347

Excess (Deficiency) of Revenues Over Expenditures 1,437

FUND BALANCE - Beginning of Year 22,855

FUND BALANCE - End of Year \$ 24,292

VILLAGE OF MCBRIDES, MICHIGAN

GARBAGE AND RUBBISH COLLECTION FUND

BALANCE SHEET

MARCH 31, 2007

ASSETS

Cash on Deposit	
Commercial Account	\$ 522
Accounts Receivable	<u>112</u>
 TOTAL ASSETS	 \$ <u>634</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Deferred Revenue	\$ 224
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FUND BALANCE

Reserved for Garbage and Rubbish Collection	<u>410</u>
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TOTAL LIABILITIES AND FUND BALANCE	\$ <u>634</u>
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VILLAGE OF MCBRIDES, MICHIGAN

GARBAGE AND RUBBISH COLLECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2007

REVENUES

Charges for Services		
Refuse Collections	\$	7,750

EXPENDITURES

Public Works		
Garbage and Rubbish Collection		
Supplies		
Office Supplies	\$	123
Other Services and Charges		
Contracted Services	<u>7,446</u>	<u>7,569</u>

Excess (Deficiency) of Revenues Over Expenditures		181
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<u>FUND BALANCE</u> - Beginning of Year		<u>229</u>
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<u>FUND BALANCE</u> - End of Year		<u><u>\$ 410</u></u>
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VILLAGE OF MCBRIDES, MICHIGAN

STATEMENT OF 2006 TAX ROLL
MARCH 31, 2007

STATE EQUALIZED VALUATION	<u>\$ 2,892,431</u>
MILLS	<u>2.4013</u>
Taxes Assessed	\$ 6,945
Taxes Collected	<u>5,951</u>
Taxes Returned Delinquent	<u>\$ 994</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601
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September 4, 2007

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Village Council
Village of McBrides
McBrides, Michigan

During the course of our audit of the basic financial statements of the Village of McBrides for the year ended March 31, 2007, we noted the following list of items which we feel deserve comment:

Budgeting

To be in compliance with Public Act 621 of 1978, the Village should adopt budgets for all funds of the Village.

Recordkeeping

The accounting records for the year ended March 31, 2007, were found to be in good order and in compliance with the State's uniform accounting system. We compliment the clerk and treasurer for a job well done.

Investment Policy

Public Act 196 of 1997 became effective on December 30, 1997. It required that local units of government adopt an investment policy within 180 days of the end of the fiscal year they were in on the day the act took effect. Therefore, the Village should have adopted an investment policy by September 30, 1998 to comply with P.A. 196. The new law requires the policy to provide a statement of purpose, a delegation of authority to make investments, a list of authorized investment instruments, and to provide procedures for safekeeping of assets. As of the date of this letter, no policy had been adopted. We are available to assist the Village with developing a policy.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the Village clerk and treasurer during the course of our audit. In addition, we would like to thank the Village Council for its continued confidence in our firm. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

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September 4, 2007

COMMUNICATION OF SIGNIFICANT DEFICIENCIES THAT INDICATE NO MATERIAL WEAKNESSES IN INTERNAL CONTROL

To the Village Council
Village of McBrides
McBrides, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of McBrides as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of McBrides' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.